

**INSIGHTS IN INTERNATIONALIZATION OF TOURISM FIRMS****Lecturer Adriana Corfu, Ph.D.**University of Aveiro
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puiu.nistoreanu@com.ase.ro**Abstract**

The international dimension of tourism industry is becoming increasingly important and complex in the world of economy. Despite this increasing prominence little is known about the internationalization of tourism firms. This paper attempts to examine the concepts underpinning the notion of internationalization in light of today's changes and challenges. In addition, it is our purpose to reflect on how the tourism firms could internationalize in an already "born global" world, where the "instantly international" outlook is becoming, nowadays, increasingly prevalent. Even though space does not permit a full approach, we hope to provide the necessary outline.

Keywords

- Internationalization;
- Tourism;
- Small and Medium Enterprises;
- Strategic management.

1. Introduction

As already known, many industries are increasingly becoming international, or even global. Factors like the rapid technological change, the convergence of consumers' tastes and the increasingly world-wide competition have led companies to scale, scope and learning economies, which in turn, have motivated companies through international

Rezumat

Dimensiunea internațională a industriei turismului este din ce în ce mai importantă și mai complexă în economia lumii. În ciuda acestei creșteri, se știe puțin despre internaționalizarea firmelor de turism. Încercăm în lucrarea de față să examinăm conceptul de internaționalizare, prezentându-i schimbările și provocările actuale. Ne propunem de asemenea să analizăm modalitatea în care firmele de turism ar putea să se internaționalizeze într-o lume "născută globală", unde imaginea internațională a devenit în zilele noastre tot mai importantă. Chiar dacă spațiul nu ne permite o abordare în detaliu, sperăm să oferim elementele necesare unei abordări complete.

Cuvinte cheie

- Internaționalizare;
- Turism;
- Întreprinderi mici și mijlocii;
- Management strategic.

expansion. In the light of these changes and challenges, the international dimension of tourism industry is becoming increasingly important and complex. According to WTO, 2004, within the EU, tourism accounts for 6% of the Gross Domestic Product (GDP), is responsible for the creation of 2 million enterprises and 20 million jobs, with new 100.000 jobs per year (3% growth). Europe is the number one destination in the world,

receiving almost 55% of worldwide international tourists. This high share is partially due to the close proximity of the many relatively small European countries which stimulates intra-European travel. There were over 416,4 million international tourist arrivals in Europe in 2004, and these are expected to increase to 717 million by 2020 (WTO, 2005). It is therefore undoubtedly a major industry which will become even larger in the future.

Despite this increasing prominence of international tourism in national, European and global economies, little is known about the internationalization of tourism firms. It is therefore timely to examine the concepts underpinning the notion of internationalization in light of today's changes and challenges. This is true all the more in an environment highly dominated by Small and Medium Enterprises (SMEs) (The European Commission defines SMEs as all organisations with less than 250 employees and less than 50 million euros turnover. Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover does not exceed 2 million euros. According to data from 2003 from the Observatory of European SMEs, 99,8% of European Union enterprises have less than 250 employees. 92% of them have less than 10 employees (Teixira and Diz, 2005)), most of them as family-owned businesses, where the classical theories not always do fit.

In addition, is our purpose to reflect on how the tourism firms internationalize in an already "born global" world, where the "instantly international" outlook is becoming, nowadays, increasingly prevalent (McAuley. 1999). So, questions such as *What is the purpose of internationalization? What are the expected benefits or outcomes? What are*

the values that are underpinning it? Who are the main actors, stakeholders, and beneficiaries? Do firms go abroad for compensate for their weakness at home? What are the positive consequences, what are the unintended results, and what are the negative implications? What are the policy and funding implications of increased emphasis on internationalization? Are governments addressing the issue and moving forward? are the main guidelines of this paper. Even though space does not permit a full discussion, we hope to provide the necessary outline.

2. Brief Overview of the Internationalization Process

The literature on internationalization is rich and complex and the review suggests many schools of thought. For example, Mungall and Johnson (2004) summarize the following:

- The establishment chain model states that the internationalization is a process that follows an orderly sequence of growth in incremental stages, with knowledge and commitment the major elements of this model; i.e. more a company learns about the new markets, more resources are committed. A firm initially employs entry modes with low resource commitments, like export, and then step up to modes requiring greater commitment, and consequently risk, where the final step is production abroad. An inexperienced firm is assumed to be uncertain and unwilling to commit to many scarce resources. As experience with foreign operations increases, uncertainty is reduced which results in more commitment and more advanced entry strategies.

- Internalization, foreign direct investment and eclectic paradigm - Internalization paradigm outlines that companies have to avoid transaction costs

by internalizing the intermediate product market. Foreign Direct Investment (FDI) theory postulates that, in addition to the internalization advantages posed by the previous school, there is a need for some unique firm specific advantages that must be exploited before (In the hotel industry, for example, firm specific advantages are global reservation systems (GRS) and brand equity which allow international operators economies of scale and scope.). Only when these are combined with advantages derived from the international location, international companies gain an edge over the local operators. Finally, the eclectic model considers internationalization within the framework of three types of interrelated advantages: ownership, location and internalization (OLI).

- Network theory refers that firms are engaged in relationships between customers, producers, suppliers, distributors, competitors and governments (e.g. joint ventures, strategic alliances, licensing agreements, subcontracting, joint research and development, *inter alia*).

- Segal-Horn paradigm suggests that, owing to fundamental changes in the nature of services, these developments have led to increased concentration, with service industries moving away from highly fragmentized markets towards greater concentration, with clear market leaders.

The final school of thought combines elements from several disciplines, including transaction cost and agency theory, corporate knowledge and organizational capability theories in the production of their syncretic model which addresses some of the key decisions behind the choice of methods of expansion (Contractor and Kundu. 1998).

Other authors introduce (and use in their research studies) the Uppsala model, which assumes that the internationalization of a company is a path

dependent learning process. According to this model, internationalization is considered to be the result of interplay between increasing commitments to and evolving knowledge about foreign markets. In fact, it is often associated with two concepts: the psychic distance and the establishment chain (Lommelen, et al. 2002). The psychic distance refers to the fact that firms first enter markets culturally and geographically close and gradually expand in markets characterized by greater cultural and geographical distance. The notion of establishment chain has already been mentioned (see previous page). By believing that psychic distance and establishment chain are not the only possible manifestation of learning, about two decades after the model been put forward, Johansson and Vahlne extend their original model with a third concept: the network perspective. Despite its conceptual difficulty, there is a range of studies using this theoretical platform, most of them conducted by academicians from Uppsala, Sweden (Teixeira and Diz. 2005).

In more recent research, however, authors like Tallman and Fladmoe-Lindquist; Lloyd-Reason and Mughan, Fillis (cit. in Mungall and Johnson. 2004, pp. 279) have drawn on marketing and entrepreneurial literature, by proposing alternative methodologies; they consider the level of learning and internal resources within the firm, and the role the owner plays in the international development of the company. Also the global vision and the cultural orientation of the owner, as well as the use of technology to exploit advantages in the marketplace, are seen as key factors in the internationalization process.

Concerning the internationalization of service companies, where tourism belongs, literature review suggests that researchers involved in this area use, as starting point, a combined framework,

where several existing theories are taken into account. Overall, the Uppsala model and the theory of networks are most often included in the theoretical foundations of service internationalization.

The company's international activities can be divided into operations (e.g. production, sales) and strategic activities (e.g. internationalization of capital, research and development, headquarter function). The operational internationalization derives from the need for seeking new markets, lower costs and resources. On the other hand, the low level of home *embeddedness* is what makes companies to engage in a strategic internationalization process. Such *embeddedness* is a result of strong synergies with the government, of cultural affinity, of the existence of well-functional national innovation systems, well-developed infrastructures and strong local clusters. At the same time, is quite assumed that, over time, the internationalization process has moved from being predominantly operational driven to becoming more strategic oriented.

Firms take different approaches to global expansion and implement vastly different strategies. Though the international strategies deployed by firms apparently vary based on the national origins of firms, there is no guarantee that a successful strategy duplicated by another firm will necessarily yield the same result. However, similar patterns occur with some regularity for a variety of firms (Kotabe and Aulakh. 2002).

On the other hand, there is considerable evidence that small open economies tend to be more internationalized with firms competitive in a few niche sectors or clusters (for example, food sector in Denmark, forestry and pulp and paper in Finland, oil and gas in Norway). The *size per se* and the limited resources could be the reasons for

such trend. At the same time, small countries are becoming more dependent on their multinational enterprises (MNE), letting themselves in a vulnerable position. Increased globalization pressures force such enterprises to redesign their activities abroad, which sometimes could not coincide with the own country's policy, strategies or goals. Despite their operational level abroad, these companies, cluster-dependent, tend to maintain the strategic activities at home.

3. Small Firms in Tourism Internationalization

Travel and tourism is considered one of the fastest growing industries and the major contributor to the worldwide GDP today. Moreover, for some destinations, the share of the tourism market can be the only way to keep the region alive. The generalised expansion of tourism, along with the growing dispersion of tourists and the diversification of tourist destinations, has lead to a growing importance of emerging destinations, most of them in Asia and East Europe. For example, the main winners in terms of tourism growth in 2004 in the European market were emerging destinations in Central and Eastern Europe – and notably Estonia, Lithuania, Bulgaria, the Czech Republic, Romania and Slovenia (WTO 2004). Global Insight (ETC 2005) estimates that Eastern Europe will be the second fastest growing outbound travel market between 2004 and 2009, behind Asia. The growing importance of these markets as tourism destinations has been originating massive investment by economic agents worldwide and a challenge to foreign enterprises to enter markets globally.

The question, however, still remains the same: How could small and medium tourism enterprises (SMTes) act in a world of competitiveness, growth and

profitability? Any way, there are some pros and cons, and the expression “*small is beautiful*” not always is shared with the same conviction between authors. Advantages often relate to the small size and independence that allows entrepreneurs the flexibility that larger organisations often lack. It specifically means that this flexibility allows these firms to adapt to market changes and be pro-active, often driving a contagion effect for innovation in proximate firms and fuelling *embeddedness* of knowledge. Many of the disadvantages occur due their lack of economies of scale and scope, resulting in high fixed costs and relatively high costs per unit. These small scale businesses also tend to lack qualified skills, finance, and lobbying capacity, often resulting in instability and high rates of firm mortality.

SMTEs can cope with their internal limitations and threats of the global market by improving their strategic management vision, and thus develop strategic positioning by cooperating with other tourism industry partners, establishing strong partnerships with private sector operators and with the public sector.

These partnerships should encourage the involvement of more stakeholders and form a network of organisations, which can evolve into clusters if these networks have a common strategic orientation, permitting them to gain capacity to internationalize and gain new markets. Clearly, governments and non-governmental organizations (NGOs) have an important influence on these partnerships, not only through an active participation, but also through policy, funding, programs, and regulatory frameworks, enforcing the international dimension of tourism, in general.

However, understanding how to seek for global business strategies, how to achieve effective cross-border integration

and coordination of activities and thus, how to generate a sustainable competitive advantage becomes even more complicated in a global industry, with some part of the value chain belonging to the country of origin of the tourist and the remaining to the countries that are destinations, and extremely dependent on information and communication industries (Corfu, Laranja and Costa, 2003). This will only be possible with the effective use of technology (Buhalis and Main, 1998), particularly of the Internet. In fact, it is more than a decade since hyped stories about the ability of the “net of networks” in putting together “actors” across the tourism industry has caused much of a stir in the minds of academics, practitioners and public policy makers, among others. In the last decade, the advent of the Internet, with worldwide users topping about 1 billion in mid 2005 (C-I-A, 2004), has marked the tourism industry which has already reported dramatic changes in its structure, with new competitors entering the market and old ones leaving on a day-to-day basis and with customers wishing more frequent, but shorter travel, last-minute reservations, global advice, service quality and market transparency.

These should ideally lead SMETs to differentiated tourism products, by capitalizing the benefits of economies of scope and at the same time, by matching the demand of post-modern tourist - e.g. gather recreational micro-services on their own and form their customized holiday - at lower cost (Corfu and Kastenholz, 2005). There is no doubt that the Internet is nowadays the most comprehensive and universal medium, able to provide managers with a set of useful tools for, on time, generating synergies between clients and companies, in general. To do this, the way managers think needs to adapt.

4. Conclusion

This paper aimed, on one hand, to review concepts and theories related with the internationalization process. On the other hand, authors tried to attend some

actual questions on tourism firms' internationalization. Attention was given to specificities of SMETs, as well as to the importance Internet might have for small and medium tourism enterprises in seeking for global business strategies.

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